

Mid-Year Performance Review of the Banking Sector

(January - June 2019)



**Financial Stability Department
State Bank of Pakistan**

MPR Team

Team Leaders

Mr. Muhammad Javaid Ismail	javid.ismail@sbp.org.pk
Dr. Asif Ali	asif.ali@sbp.org.pk

Team Members

Aqeel Ahmed	aqeel.ahmed@sbp.org.pk
Mariam Abbas	mariam.abbas@sbp.org.pk
Mohammad Abdul Rehman Ansari	abdul.rehman@sbp.org.pk
Muhammad Sadiq Ansari	sadiq.ansari@sbp.org.pk
Qaisar Mehmood	qaisar.mehmood@sbp.org.pk
Wasif Hussain	wasif.hussain@sbp.org.pk

Acknowledgements

The team would like to thank various departments of SBP, especially Research Department (RD), Offsite Supervision & Enforcement Department (OSD), Statistics and Data Warehouse Department (S&DWH), Economic Policy Review Department (EPRD), Banking Policy and Regulations Department (BPRD) and Payment Systems Department (PSD) for data assistance, analysis and support.

Contents

Summary	i
Part A: Performance of the Banking Sector	01
Assets	01
Advances	01
Investments	04
Deposits	04
Borrowings	05
Equity	05
Appendix A: Seasonality in Advances (Sector Wise – Public and Private)	06
Part B: Soundness of the Banking Sector	07
Banking Sector Stability Map	07
Asset Quality	07
Liquidity	08
Profitability	08
Solvency	09
Box 1: SBP Systemic Risk Survey- 4 th Wave (June, 2019)	11
Part C: Banking Sector Outlook for H2CY19	13
Annexure (A – E)	14

Summary¹

Despite challenging macroeconomic environment, banking sector maintained its growth trajectory during the first half of CY19 (H1CY19) largely, backed by decent growth in deposits. Besides seasonal factors, rise in minimum saving rate and inflows related to amnesty scheme increased the flow of deposits. Due to slowdown in flow of advances and tilt of the government borrowing to central bank, most of the growth in assets reflected in increase of end period ‘cash and balances’.

Among the advances, flow of private sector advances observed a broad-based slowdown owing to subdued economic activity and continued monetary tightening, while flow of public sector advances declined due to lower utilization of commodity financing and retirement of energy sector advances. Asset quality saw some deterioration, with increased volume and share of non-performing loans, particularly in agriculture and energy sectors. While investments observed a marginal rise, banks renewed their interest in PIBs due to favorable interest rate dynamics.

The overall risk profile of the banking sector remained satisfactory. The earnings of the banking sector improved owing to increase in Net Interest Income (NII), which improved all the profitability indicators. The resilience of the banking sector remained robust as the Capital Adequacy Ratio (CAR) at 16.1 percent was well above the local and international minimum benchmarks of 11.9 percent and 10.5 percent, respectively. With the approaching deadline, banks need to ensure effective implementation of their plans for meeting the enhanced capital requirement of 12.5 percent by end December, 2019.

¹ Analysis in this document is largely based on the unaudited numbers submitted by banks to SBP on quarterly basis. From the data convention perspective, H1CY and H2CY stand for the first and second half of a particular calendar year (CY), respectively. CY, generally, symbolizes the full calendar year, while QxCY represents any of the four quarters of a CY.

A. Performance of the Banking Sector

The performance of the banking sector during H1CY19 remained satisfactory, considering the prevalent macroeconomic environment. The **asset base** of the banking sector expanded by 5.3 percent during H1CY19 (YoY: 7.9 percent)—higher than the growth of 4.7 percent in H1CY18 (YoY: 9.7 percent). This growth largely came on the back of rise in deposits, a portion of which was mobilized in June 2019, leaving banks with little time to deploy the funds in higher yielding earning assets.² Consequently, the ‘cash and balances’ increased significantly. While advances (net) decelerated to 1.9 percent in H1CY19 compared to a growth of 12.3 percent in H1CY18, investments saw a slight increase of 0.7 percent in H1CY19 against contraction of 3.6 percent, during H1CY18 (**Table 1 and Annexure A**).

Table 1: Highlights of the Banking Industry

	CY17	H1CY18	CY18	H1CY19
Key Variables (PKR Billion)				
Total Assets	18,341.5	19,197.1	19,682.1	20,717.6
Investments (net)	8,729.0	8,417.8	7,913.9	7,967.7
Advances (net)	6,512.5	7,310.3	7,955.2	8,104.2
Lending to financial institutions	605.0	652.0	909.8	724.7
Deposits	13,011.8	13,755.8	14,254.2	15,227.4
Borrowings from financial institutions	3,125.4	3,161.9	3,001.2	2,619.9
Equity	1,380.8	1,389.1	1,405.6	1,488.0
Operating Profit	111.0	52.3	114.7	93.5
Profit Before Tax (ytd)	266.8	128.5	243.1	154.7
Profit After Tax (ytd)	157.8	76.6	149.6	82.7
Non-Performing Loans	592.5	623.6	679.7	768.0
Non-Performing Loans (net)	75.6	80.6	110.1	166.2
Key FSIs (percent)				
NPLs to Loans (Gross)	8.4	7.9	8.0	8.8
Net NPLs to Net Loans	1.2	1.1	1.4	2.1
Net NPLs to Capital	5.8	5.9	7.8	11.5
Provision to NPL	87.2	87.1	83.8	78.4
ROA (After Tax)	0.9	0.8	0.8	0.8
CAR	15.8	15.9	16.2	16.1
Advances to Deposit Ratio	50.1	53.1	55.8	53.2

Note: Statistics of profits are on year-to-date (ytd) basis.

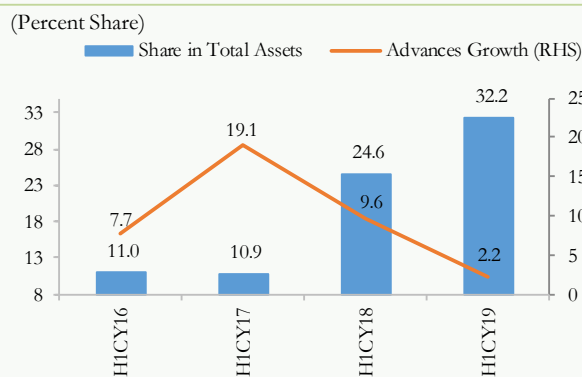
Source: SBP

On the funding side, **deposits** accelerated to 6.8 percent during the reviewed period (YoY: 10.7 percent) as compared to 5.7 percent in H1CY18 (YoY: 9.4 percent). In addition to increase in deposits, the meager rise in advances and the shift in government borrowing from scheduled banks to central bank reduced the banks need for

borrowings. Resultantly, banks borrowings declined by 12.7 percent (YoY: -17.1 percent). In this backdrop, the advances to deposit ratio dipped to 53.2 percent in June-19 from 55.8 percent in December-18.

Islamic Banking Institutions (IBIs) share in banking sector’s asset increased to 14.4 percent. IBIs contribution in total assets flows in H1CY19 was the highest in the last three years, indicating growing significance of IBIs (**Chart 1**). However, investment (in Sukuk³) took the lead to push the assets during the current half in contrast to previous corresponding halves when financing had played the major role.

Chart 1: IBIs contribution in total assets flows and advances growth



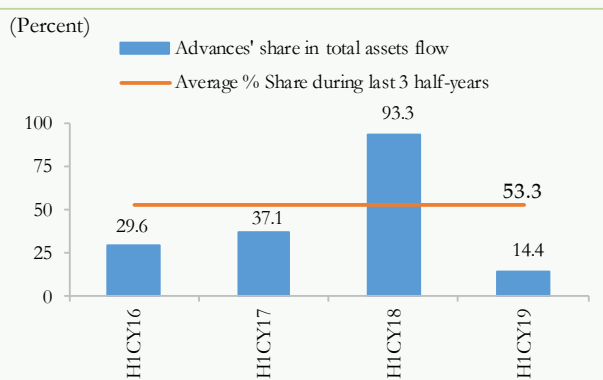
Source: SBP

With the widespread deceleration in **advances** growth, the advances could only contribute 14.4 percent share in the asset growth in H1CY19, lower than the average of 53.3 percent during the comparable period of last 3 years (**Chart 2**).

² Generally, deposit mobilization at half-year end generates cash more than normal business needs and is often transitory in nature.

³ This refers to investment of PKR 137 billion in SUKUK issued by a public sector entity in the energy sector.

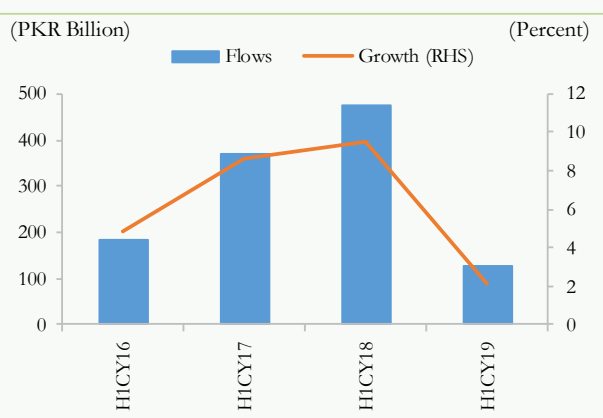
Chart 2: Notable decline of advances share in banking sectors' asset flows



Source: SBP

The demand for loanable funds weakened in both the private and public sectors. The growth in **private sector advances** remained minimal (2.1 percent) in H1CY19 as compared to average expansion (7.6 percent) in the comparable period of last three years (**Chart 3**). This slowdown in private sector advances also resulted from increased risk aversion by banks, besides the seasonality.

Chart 3: Significant decline in private sector advances flows



Source: SBP

Continued tightening of macrofinancial conditions (e.g. another 225 basis points rise in policy rate in H1CY19) along with the regulatory measures relating to import duties taken during FY19 eventually impacted the production activity. There was broad-based decline in Large Scale Manufacturing (LSM) Index, which contracted by 3.6 percent during FY19 (6.4 percent expansion in

FY18). This decline was mirrored by imports, which dropped by 17.1 percent (USD 24.5 billion in H1CY19 vs. USD 29.6 billion in H1CY18). The softening of aggregate demand in turn reflected in dip in growth of private sector advances. In addition, there was drop in consumer and investor confidence in the economy.⁴

On the supply side, banks became risk averse as they anticipated rise in defaults in the private sector due to hike in interest rates as well as slowdown in economic activity. Simultaneously, the increased return on risk-free securities (T-bills and PIBs), due to monetary tightening, made investment in such securities attractive for the banks in Q2CY19. In this backdrop, the shift in demand for and supply of advances reinforced the slowdown.

Dissecting the demand of the **private sector**, the sector-wise flow of advances during H1CY19 indicated a broad based reduction (**Table 2**). Significant retirement was made by the textiles, more than their usual seasonal trend (**Appendix-A**). One of the possible reasons could be the improved export revenues in PKR terms—owing to currency depreciation, which enabled the sector to retire its borrowings.⁵

Table 2: Sector-wise Advances Flow (PKR Billion)

	H1CY18			H1CY19			Percent Growth*	
	Public	Private	Total	Public	Private	Total	H1CY18	H1CY19
Chemical & Pharmaceuticals	0.0	27.9	27.9	0.0	11.4	11.4	12.2	4.0
Agribusiness	37.3	(0.3)	37.0	41.9	(4.4)	37.5	6.0	5.5
Textile	-	(6.5)	(6.5)	-	(86.6)	(86.6)	(0.7)	-7.6
Cement	-	33.6	33.6	-	7.9	7.9	32.9	4.9
Sugar	(15.2)	76.8	61.6	-	42.2	42.2	25.2	18.0
Shoes & leather garments	-	1.9	1.9	-	3.0	3.0	7.0	9.5
Automobile/transportation	(3.6)	4.6	1.0	6.3	3.3	9.6	1.2	8.8
Financial	0.5	10.6	11.1	0.1	10.5	10.7	12.7	9.4
Insurance	-	(2.5)	(2.5)	-	(0.3)	(0.3)	(42.6)	-7.2
Electronics & electrical appliances	-	2.5	2.5	-	(2.8)	(2.8)	3.2	-2.9
Energy	137.7	62.1	199.8	(29.2)	38.3	9.1	19.4	0.6
Individuals	-	88.6	88.6	-	23.2	23.2	15.0	3.3
Others	193.2	168.6	361.7	(43.4)	82.4	39.0	14.6	1.3
Total (Domestic Sector)	350.0	467.9	817.9	(24.2)	128.2	104.0	12.5	1.3

Source: SBP

* Half-Yearly growth of total gross advances

Despite deceleration in growth, the sugar sector remained a major contributor (32.9 percent) to the total private sector advances flow. Relatively lower disbursements in the sector could be due to substantial decline in sugarcane production as well

⁴ The Consumer Confidence Index (CCI) dipped to 43.4 in Jul-19 from 49.3 in Nov-18. This reflects possible slowdown in consumer spending. In addition, the overall Business Confidence Index (BCI) receded to 43 (predominance of pessimistic views) in June-19 from

49 in Dec-18. Importantly, the level of BCI in June-19 was the lowest since its inception in Oct-17.

⁵ In H1CY19, textile sector's exports were higher by 23.0 percent in PKR terms as compared to H1CY18.

as improved cash flow of sugar mills on the back of higher domestic sugar prices during the reviewed period.⁶ The energy sector also availed lesser advances possibly because of completion of some projects related to CPEC and delay in commencement of new wind energy projects.

The substantial fall in advances uptake in “others” category was related to ‘food products and beverages’ (PKR 43.4 billion in H1CY19 vs. PKR 139.5 billion in H1CY18), ‘basic metals’ (PKR 8.4 billion in H1CY19 vs. PKR 25.1 billion in H1CY18), and ‘commerce and trade’ (PKR 11.7 billion in H1CY19 vs. PKR 23.7 billion in H1CY18).⁷

In terms of **segments**, the slowdown in corporate advances was, primarily, driven by working capital loans and trade finance (**Table 3**). In the past few quarters, despite receding demand, the increased input costs drove up flow of working capital advances in the private sector.⁸ However, with deepening slack in the economy, notable deceleration in working capital advances was observed despite prevailing cost pressures.⁹ Similarly, the drop in trade financing manifested the impact of exchange rate dynamics that resulted in decline in imports.

Besides, corporate fixed investment advances flow also weakened. A number of factors contributed to this slowdown: (i) decline in PSDP spending¹⁰; (ii) completion of projects (mostly infrastructure and power) under CPEC; and (iii) prevalent uncertainty among the market participants about the future economic direction (**Box-1**).

Table 3: Segment-wise Domestic Advances Flows
(PKR Billion)

	H1CY18			H1CY19		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Corporate Sector	202.1	414.3	616.4	(50.6)	127.7	77.1
Fixed Investment	194.3	108.2	302.5	9.4	91.5	100.9
Working Capital	(9.8)	239.4	229.7	(31.9)	34.3	2.5
Trade Finance	17.5	66.7	84.2	(28.2)	1.9	(26.3)
SMEs	-	(30.6)	(30.6)	-	(46.2)	(46.2)
Fixed Investment	-	8.3	8.3	-	(4.0)	(4.0)
Working Capital	-	(42.3)	(42.3)	-	(39.4)	(39.4)
Trade Finance	-	3.4	3.4	-	(2.8)	(2.8)
Agriculture	0.2	1.1	1.3	-	9.4	9.4
Consumer Finance	-	47.9	47.9	-	27.5	27.5
<i>of which</i>						
Credit Cards	-	3.2	3.2	-	3.48	3.5
Auto Loans	-	27.1	27.1	-	11.0	11.0
Mortgage Loans	-	8.7	8.7	-	2.4	2.4
Commodity Financing	147.7	30.4	178.1	26.4	(2.4)	24.0
Staff Loans	-	6.4	6.4	-	12.4	12.4
Others	-	(1.7)	(1.7)	-	(0.1)	(0.1)
Total	350.0	467.9	817.9	(24.2)	128.2	104.0

Source: SBP

SMEs—given their higher sensitivity to financial conditions—responded by retiring larger amount of advances during the reviewed period (**Table 3**). Most repayments were in the ‘food and beverages’ sector. Moreover, long-term advances by SMEs contracted in H1CY19 (PKR -4.0 billion in H1CY19 vs. PKR 8.3 billion in H1CY18).

Besides corporate and SMEs, **Consumer financing** uptake receded by 42.7 percent during H1CY19. There was weakening of auto advances and mortgages. Rising interest rates, higher federal excise duties on cars, and further impact of exchange rate depreciation on car prices adversely influenced the demand for auto financing during the reviewed period.

In case of **public sector** advances, though the declining trend was more pronounced, the underlying factors were different. Improved cash flows of the public sector entities in the energy sector facilitated the retirements during Q1CY19 (**Tables 2 & 3**). Moreover, substantially lower wheat financing was availed by the government agencies under commodity financing. This was

⁶ Sugarcane production was down by 19.4 percent in 2019 (source: Pakistan Economic Survey 2018-19). Moreover, sugar stocks declined by 25.6 percent in Q2CY19 indicating improved cash inflows of sugar millers. Also, sugar prices averaged at PKR 64.1/kg in H1CY19 as compared to PKR 53.1/kg in H1CY18.

⁷ <http://www.sbp.org.pk/ecodata/By-type-of-finance-arch.xls>

⁸ Financial Stability Review, 2018.

⁹ Wholesale Price Index (WPI) on average increased by 12.3 percent in H1CY19 as compared to 5.0 percent in H1CY18.

¹⁰ PSDP expenditures fell by 31.9 percent in FY19.

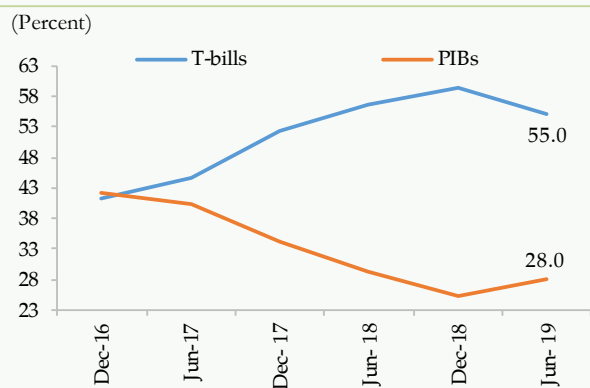
due to higher wheat exports¹¹ and off-loading of stocks in the domestic market to contain prices.

The other major earning asset of the banks i.e. **investments**, observed marginal growth of 0.7 percent (PKR 53.8 billion) during H1CY19 as compared to 3.6 percent (PKR 311.2 billion) decline in H1CY18.¹² This was attributed to a rise in TFCs/Debentures (by PKR 130.7 billion)¹³ and other investments (by PKR 69.2 billion), while investment in government securities declined (by PKR 128.1 billion).

It was the stock of T-bills that declined by 6.6 percent (PKR 314.3 billion) in H1CY19, while investments in PIBs increased by 11.5 percent (PKR 231.3 billion).¹⁴ In anticipation of further rise in interest rates, banks were reluctant to rollover their investments in T-bills during Q1CY19.¹⁵ Consequently, the government shifted its borrowing to SBP and made retirements to the scheduled banks. However, in Q2CY19, banks aggressively participated in the T-bills auctions in response to the further monetary tightening.

In case of PIBs, banks began to increase their holdings in Q2CY19 due to rise in interest rates as per expectations¹⁶ and portfolio re-balancing.¹⁷ Resultantly, PIBs share in total investment rose to 28.0 percent in June-19 from 25.3 percent in Dec-18 (**Chart 4**).

Chart 4: Percent share of MTBs and PIBs in total investments



Source: SBP

On the funding side, the **deposits** of the banking sector accelerated by 6.8 percent in H1CY19 (5.7 percent in H1CY18), the highest growth rate since H1CY16 (**Chart 5**).¹⁸ On YoY basis as well, deposits accelerated by 10.7 percent as of June-19 compared to 9.4 percent expansion as of June-18, but remained below the average growth of 12.2 percent in the previous five years. However, a good portion of the inflows came during the month of June 2019, among others, under the Government amnesty scheme.

¹¹ During Jul-Mar FY19, 557.5 thousand MT wheat was exported as compared to 307.4 thousand MT in the comparable period of previous year for which the government also provided export subsidy.

¹² On YoY basis, banks' investment contracted by 5.3 percent in H1CY19 as compared to 0.4 percent decline in the comparable period of previous year.

¹³ Sukuk issued by a Public Sector Entity in the energy sector, constituted the major portion in TFCs/Debentures.

¹⁴ Although banks aggressively invested in MTBs during Q2CY19 (PKR 1.9 trillion), significant retirement of MTBs during Q1CY19 (PKR 2.3 trillion) caused overall decline in stock of MTBs in H1CY19.

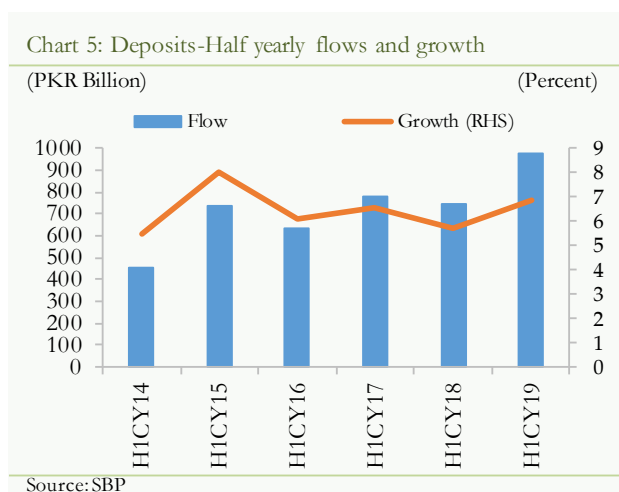
¹⁵ In Q1CY19, against government target of PKR 6.1 trillion (maturity amounting to PKR 6.0 trillion) in T-bills auctions, banks

offered PKR 3.7 trillion. The government accepted PKR 3.5 trillion.

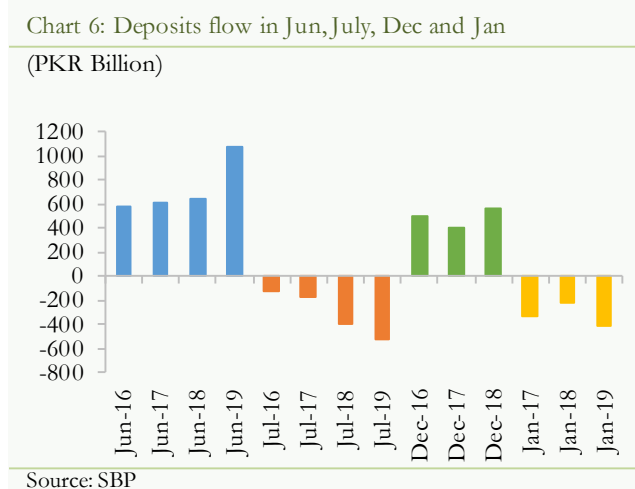
¹⁶ Average cut-off yields for 3Y, 5Y, and 10Y PIBs during H1CY19 were 12.7 percent, 13.1 percent, and 13.3 percent, respectively. Comparatively, average cut-off yields were 7.3 percent, 8.2 percent, and 8.6 percent, respectively, for 3Y, 5Y, and 10Y PIBs in H1CY18.

¹⁷ In H1CY19, banks offered PKR 2.2 trillion in PIBs auctions (fixed rate) as compared to PKR 180.1 billion in H1CY18. Moreover, during the first three months of H1CY18, banks' bids were completely rejected possibly due to demand for higher return on PIBs.

¹⁸ Deposits increased by PKR 973 billion in H1CY19 compared to increase of PKR 744 billion in H1CY18.



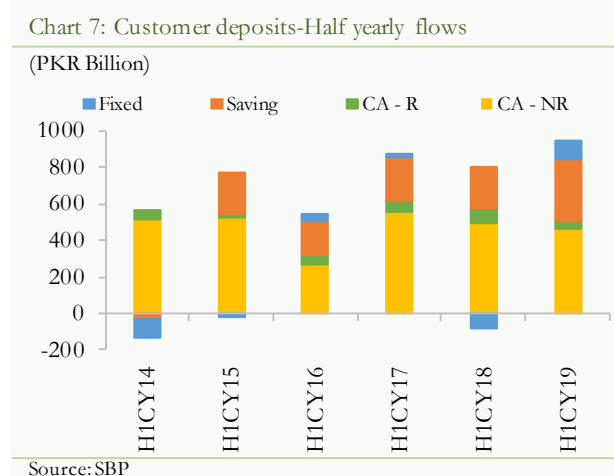
Generally, banks gear-up their deposit mobilization efforts at half-year end (June) and year end (December), which results in more inflows. (**Chart 6**). Usually, the release of budgetary payments by government departments by end-June also triggers higher deposit inflows. Barring the seasonality in December and June, the net-inflow of deposits of PKR 418 billion during H1CY19 as compared to PKR 665 billion during H1CY18 reflects the growing pressures on savers in the wake of rising prices and possibly lower income levels.¹⁹



The FCY deposits—that constituted 12.9 percent of total deposits—witnessed substantial growth of

35.2 percent (YoY) as of June-19 as compared to just 3.0 percent rise in the previous year. Most of the increase was a result of PKR depreciation and Government's amnesty scheme.²⁰

If we look at the overall deposit growth during H1CY19, it was mainly driven by remunerative deposits, probably due to rise in minimum saving rate (MSR).²¹ Fixed and savings deposits together contributed 45.5 percent rise during the period.²² (**Chart 7 and Annexure B**).



Another source of funding i.e. **borrowings**, reduced during H1CY19 due to slowdown in advances and investments. The average weekly borrowings dropped to PKR 1.9 trillion in H1CY19 from PKR 2.4 trillion in H1CY18. Importantly, banks' borrowings from SBP, particularly repo, declined in the wake of increased Government reliance on central bank during H1CY19.²³

Banking sector's **equity** increased to PKR 1.5 trillion that represented 5.9 percent growth during H1CY19 (YoY growth of 7.1 percent). The increase in equity was mainly contributed by accumulation of unremitted profits and growth in FX translation reserves and revaluation surplus.

¹⁹ Growth in currency in circulation decelerated to 9.3 percent in H1CY19 compared to 11.7 percent in H1CY18.

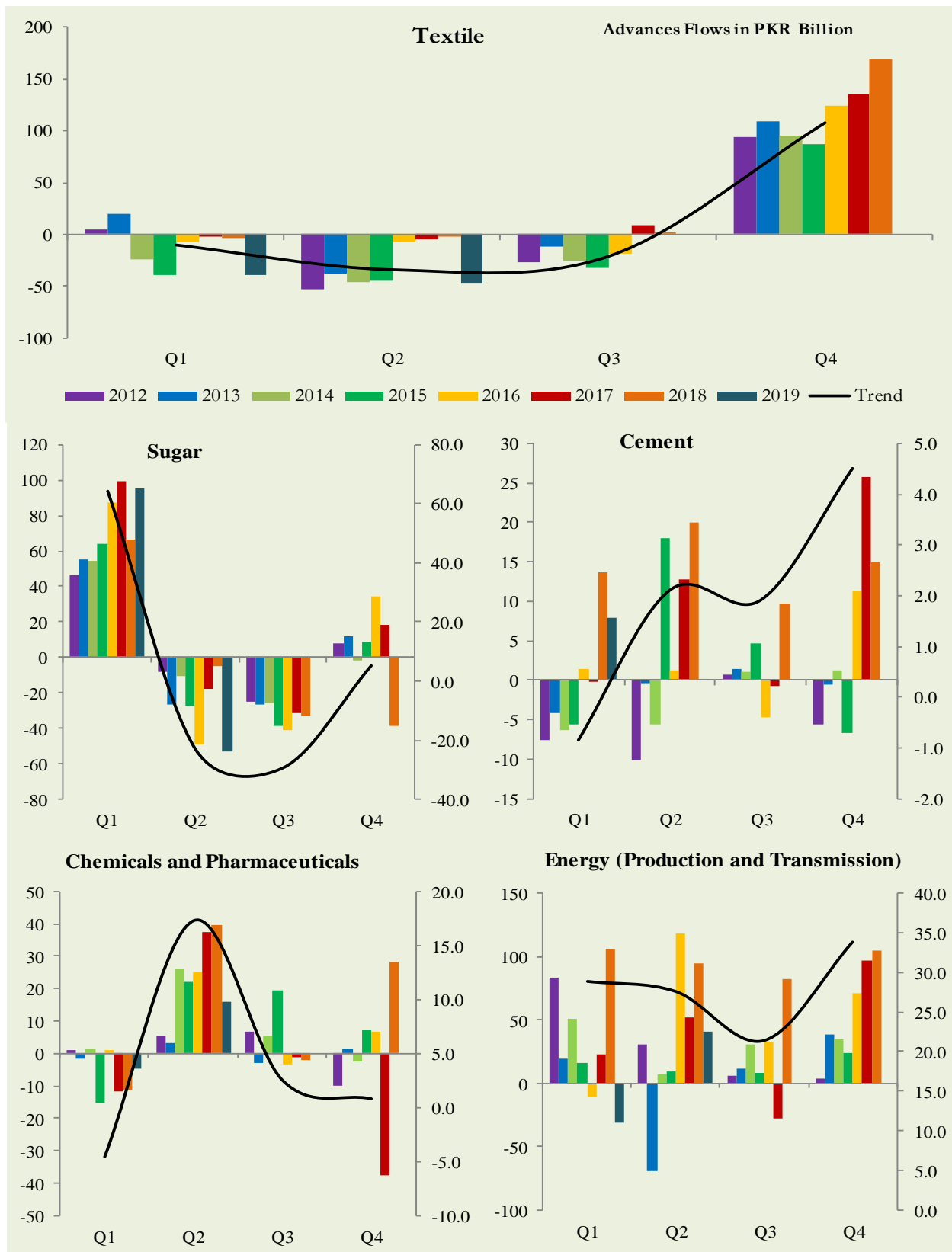
²⁰ FCY deposits increased by PKR 510 billion (YoY basis). Overseas operations contributed PKR 130 billion, while FCY deposits mobilized domestically contributed PKR 380 billion. Moreover, within domestic FCY deposits, FCY declared under Government's amnesty scheme fetched around PKR 126 billion.

²¹ MSR has increased by 225 bps during H1CY19.

²² Despite notable rise in fixed and saving deposits, there was little change in the composition of deposits as around 77 percent of the deposits constituted Current Account – Saving Account (CASA) category.

²³ Average weekly repo borrowing from SBP dropped to PKR 249 billion in H1CY19 compared to PKR 950 billion in H1CY18.

Appendix A- Seasonality in Advances (Sector Wise - Public and Private)



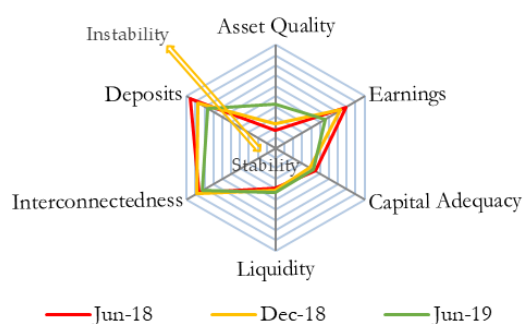
B. Soundness of the Banking Sector

The banking sector remained sound and stable during H1CY19. Although some dimensions witnessed moderation, the overall risk profile of the banking sector remained satisfactory H1CY19 (**Annexure D**).

The Banking Sector Stability Map (BSSM) depicted a balanced movement in terms of risks during H1CY19 (**Chart 8**). Earnings, interconnectedness and deposits were the dimensions in which the risk profile improved, while asset quality, capital adequacy (solvency), and liquidity witnessed moderation.

Chart 8: Banking Sector Stability Map

(Percentile Ranking)

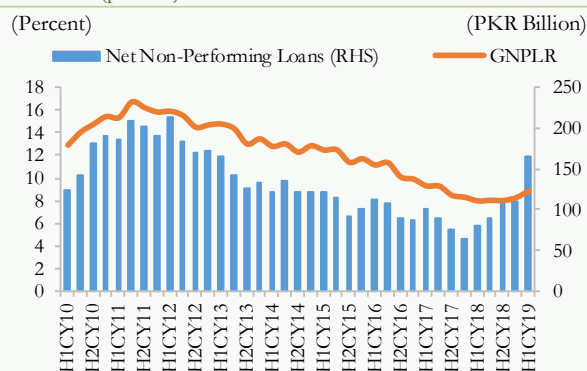


Source: SBP

Asset Quality of the banking sector weakened during H1CY19, breaking away from the declining trend in recent past. The infection ratio (NPLs to Total Gross Loans) increased to 8.8 percent by the end of H1CY19 (8.0 percent by end H2CY18) (**Chart 9**). This was mainly due to an increase of PKR 88.3 billion (or 13.0 percent) in NPLs during H1CY19. As a result, the NPLs stood at PKR 768 billion by end June 2019. The fresh rise in domestic NPLs was mostly concentrated in few local private banks as well as in a specialized bank. Consequently, the infection ratio for local private banks and specialized banks increased to 7.0 percent (6.2 percent by end of H2CY18) and 43.2 percent (32.9 percent by end of H2CY18),

respectively.

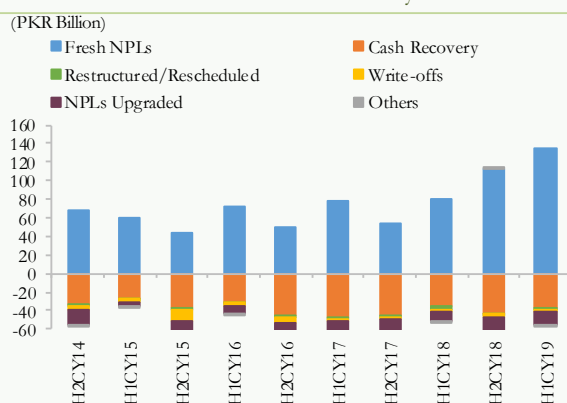
Chart 9: Net Non-Performing Loans (PKR Billion) and GNPLR (percent)



Source: SBP

With the tightening of macroeconomic conditions in CY18 and later, inflow of fresh NPLs have been on the rise (**Chart 10**).²⁴ However, in terms of economic sectors, the higher defaults during H1CY19 were restricted to the energy and agribusiness sectors. Energy sector contributed 52.8 percent to the total increase in NPLs during H1CY19, while agribusiness contributed 18.6 percent. Most of the NPLs in the energy sector (96.8 percent) pertained to the public sector entities associated with electricity generation and transmission that faced constrained cash flows (due to circular debt/low recoveries).

Chart 10: Fresh NPLs and Total Recovery



Source: SBP

²⁴ Accumulative rise in WALR was 2.68 percent during CY18 and 2.70 percent during H1CY19.

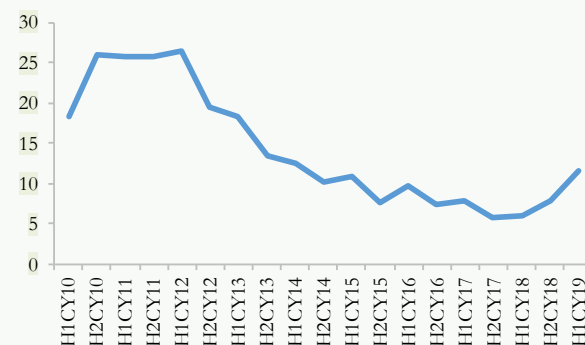
In case of Agribusiness, however, an element of seasonality exists in the classified loans as they peak around second quarter of each calendar year but then recede in subsequent quarters. Besides this seasonal phenomenon, other factors responsible for the rise in NPLs included late start of sugar crushing season, water shortage and drought conditions affecting crop yields, and delay in sale of the newly harvested kharif crops by farmers hindering their repayment capacity (Rice, Cotton and others) etc.

Furthermore, 20.8 percent contribution to the growth in NPLs came from banks' overseas operations, largely related to operations in the Middle East. In addition to PKR depreciation, the economic slowdown in some of these countries could be the reason for the higher NPLs.

The surge in NPLs was mainly driven by the NPLs of public entities in the energy sector, which do not require provisions.²⁵ Resultantly, the provision coverage ratio (78.4 percent in H1CY19 against 83.8 percent in H2CY18) declined. As a result, the net NPLs increased and net NPLs to capital ratio jumped to 11.5 percent as of end H1CY19 against 7.8 percent as of end H2CY18 (**Chart 11**). However, it may be kept in perspective that in the aftermath of growing NPLs banks made net provisions to the tune of PKR 26.40 billion during H1CY19 compared to PKR 36.2 billion during CY18.

Chart 11: Net NPLs to Capital

(Percent)

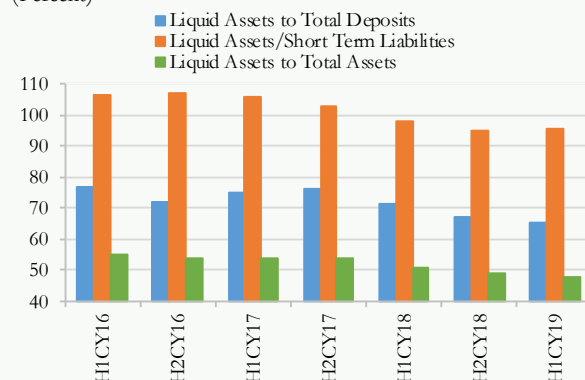


Source: SBP

The fund-based **liquidity** of the banking sector remained comfortable, despite continued moderation in liquidity ratios (**Chart 12**). Liquid assets to total assets ratio moderated to 48.0 percent by end June 2019 (48.7 percent by Dec-18). Similarly, liquid assets to total deposits (excluding customer fixed deposits) also moderated to 81.8 percent in H1CY19 (85.0 percent in Dec-18) mainly due to higher proportionate rise in deposits. However, due to improved growth in fixed deposits, liquid assets to short term liabilities ratio improved to 95.6 percent (94.9 percent in Dec-18)

Chart 12: Liquidity Ratios

(Percent)



Source: SBP

Profitability of the banking sector, despite increase in taxation,²⁶ surged with after-tax profits of PKR 82.7 billion during H1CY19, a rise of 8.0

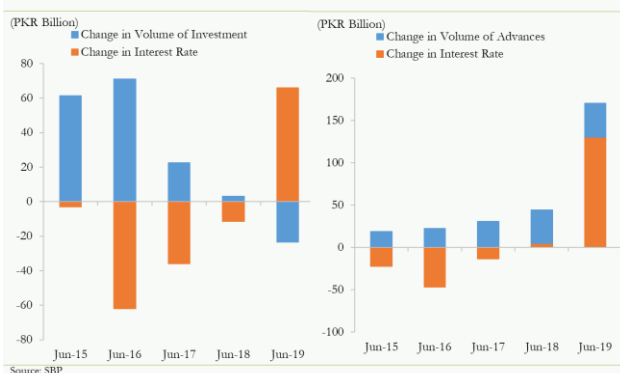
²⁵ As per SBP Regulation-8 (R-8) of Prudential Regulations for Corporate /Commercial banking, classified loans/advances that have been guaranteed by the Government would not require provisioning.
<http://www.sbp.org.pk/publications/prudential/PRs-Jan-2015.pdf>

²⁶ The phase-wise reduction in Super tax was reversed vide Finance Supplementary (Second Amendment) Act, 2019 and was fixed, retrospectively, at 4 percent from tax year 2018 till 2021.

percent over the comparable period of last year (**Table 1**). Islamic Banking Institutions (IBIs) continued to augment the overall profitability of the banking sector as it contributed 26.5 percent to the overall after-tax profits during H1CY19, despite 14.4 percent share in total banking sector assets.

The earnings ratios, which were on downtrend for last few years, improved during the half year under review Return on Equity after-tax inched up to 11.4 percent in Jun-19 from 10.7 percent in Dec-18, while ROA improved to 0.84 percent from 0.81 percent. The turnaround in profitability indicators, after three consecutive years of downturn, was primarily enabled by rising interest rates over the last year or so. (**Chart 13**).

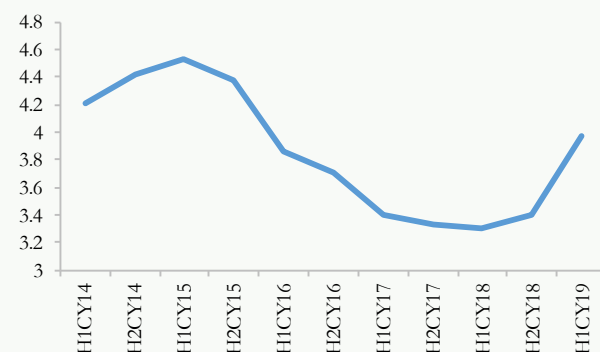
Chart 13 (a): Change in Interest Earned from Investment due to ... (b) Change in Interest Earned from Customer Advances due to...



With the rise in SBP policy rate by 575 bps over the last year, the net interest income (NII) grew by 26.4 percent mainly due to rise in interest income on advances and investments. The yield spread on advances and deposits also surged by 108 bps to reach 5.3 percent. As a result, the NIM further increased to 4.0 percent, highest since Dec-15²⁷ (**Chart 14**).

Chart 14: Net Interest Margin (NIM)

(Percent)

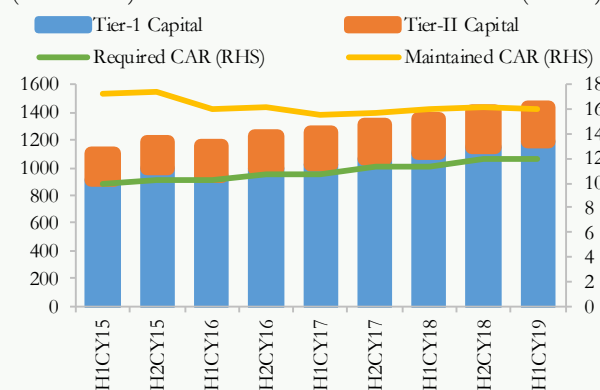


Source: SBP

Capital Adequacy Ratio (CAR) of the banking sector at 16.1 percent as of end Jun-19, though slightly lower than 16.2 percent as of end Dec-18, was well above the minimum regulatory requirement of 11.9 percent (**Chart 15**).

Chart 15: Capital Adequacy Ratio

(PKR Billion) (Percent)



Source: SBP

During the reviewed period, eligible capital increased by 2.6 percent owing to accumulation of unremitted profits and growth in FX translation reserves and revaluation surplus. However, this growth was overshadowed by higher growth in total risk weighted assets (3.4 percent in H1CY19) that dragged the level of CAR slightly downwards.

In terms of exposure towards risk, credit risk weighted assets, representing 81.0 percent of total risk weighted assets of the banking sector, increased by 3.6 percent during H1CY19 (3.2

²⁷ Deceleration in average earning assets was brought by 5.3 decline in investments and deceleration in advances (from 19.4 percent to 10.9 percent) – on YoY basis.

percent in H2CY18). The growth, despite lower financing activity during H1CY19, was mainly due to rise in foreign exchange exposure of the banking sector. Encouragingly, within the corporate sector, a notable shift in lending portfolio from un-rated category (125 percent) to rated category (50 percent) was observed. Besides depicting banks active portfolio management, the shift also reflects the growing rating culture in the economy.

Box 1: SBP's Systemic Risk Survey-4th Wave (July, 2019)

(Disclaimer: The results presented here are based on responses to the survey and do not necessarily reflect the State Bank of Pakistan views on risks to the financial system)

SBP launched the 4th wave of its biannual Systemic Risk Survey in July, 2019 to assess and quantify the market participants' risk perceptions and evaluate their confidence in the stability of the financial system. The respondents of the survey included senior executives of financial institutions, financial journalists and academia.²⁸

The survey intends to measure the present and future (over the next six months) risk perceptions of the respondents related to five broad categories including global, macroeconomic, financial markets, institutional and general risks. The overall response rate to the survey stands at 31 percent.²⁹

Summary of Results:

1. At aggregate level, financial market and macroeconomic risks are considered critical by the respondents at present as well as in the near future (6 months). **(Chart A & B)**

2. The highest cited risks at present are foreign exchange rate risk, increase in domestic inflation and volatility in commodity prices. In addition, slowdown in domestic growth, deterioration of BOP, widening fiscal deficit, rising interest rate, slowdown in corporate sector growth are the other identified risks that can affect financial stability. **(Chart C)**

3. In the next six months, respondents expect the risks to persist in areas of exchange rate, domestic inflation, domestic growth, household savings and income, corporate sector growth and fiscal deficit. **(Chart C)**

4. The likelihood of occurrence of a high risk³⁰ event in Pakistan's financial system over the short-

term is slightly higher than medium term according to survey results.

5. A majority proportion of respondents validated their confidence in the stability of the banking and financial system. Further, stated their confidence in the ability of the regulators to ensure financial stability. **(Chart D)**

6. A comparison of the results from the past waves (2nd, 3rd and 4th) of the survey demonstrates that risk perception regarding increase in domestic inflation, slowdown in growth, and interest rate risk have deteriorated. However, results show that risk from deterioration of balance of payment and widening fiscal deficit has marginally receded on the backdrop of stabilization measures being undertaken in these sectors. **(Chart E)**

²⁸ The respondents included executives from commercial banks, insurance companies, exchange companies, MFBs, DFIs, major financial market infrastructures, financial journalists, members of academia, SECP officials and think tanks.

²⁹ The 4th wave of the survey was sent to 248 respondents out of which 76 responded.

³⁰ High risk is identified by aggregating percentage of respondents by clubbing together percentage of respondents choosing either high or very high as response to a particular risk category or type in the survey questionnaire.

Chart A: Perception on sources of systemic risk- present

(Percent)

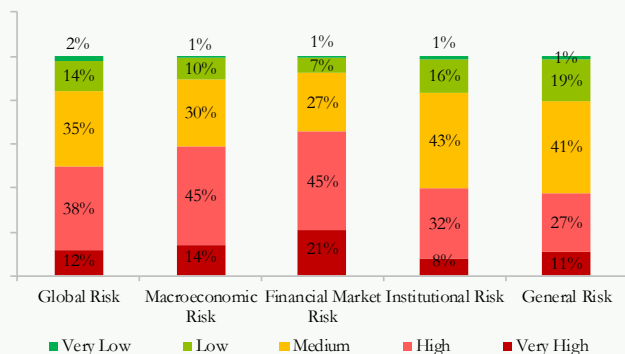


Chart B: Perception on sources of systemic risk- next 6 months

(Percent)

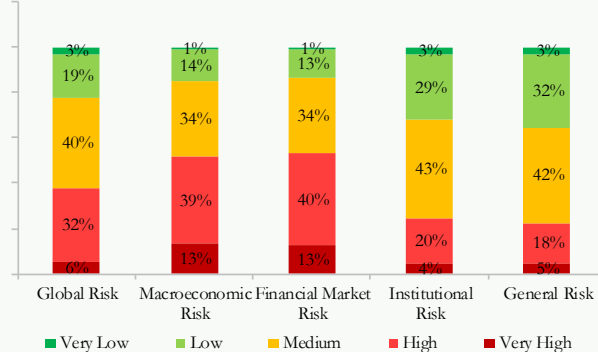


Chart C: Top 10 risks identified

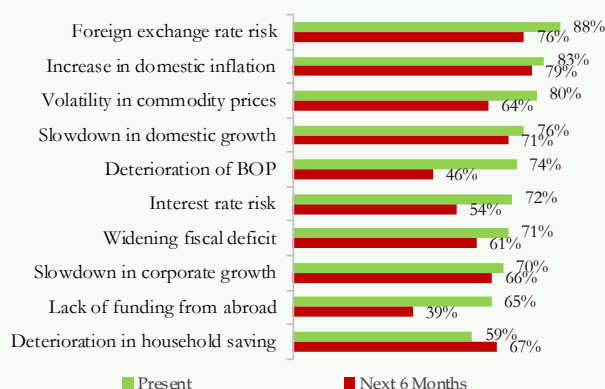


Chart D: Confidence in financial stability

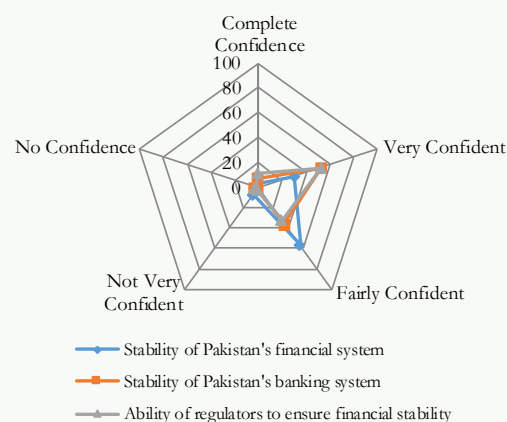


Chart E: Comparison of Results (2nd, 3rd and 4th waves)

	2nd Wave (Aug-18) Present (Average)	3rd Wave (Jan-19) Present (Average)	4th Wave (July-19) Present (Average)		2nd Wave (Aug-18) Present (Average)	3rd Wave (Jan-19) Present (Average)	4th Wave (July-19) Present (Average)
Slowdown in global growth	2.63	2.85	2.83	Interest rate risk	2.52	2.40	2.17
Sovereign default risk	2.95	3.29	3.13	Liquidity risk	2.67	2.67	2.65
Lack of funding from abroad	2.14	2.34	2.32	Regulatory risk	2.69	2.55	2.56
Volatility in commodity prices	2.22	2.28	2.05	Legal risk	2.98	2.94	2.83
Slowdown in domestic growth	2.42	2.27	2.08	Asset quality deterioration	2.52	2.55	2.38
Increase in domestic inflation	2.32	2.16	1.96	Shortfall in capital requirement	2.67	2.77	2.63
Widening fiscal deficit	1.89	1.84	2.04	Access to funding (deposit mobilization & borrowings)	2.78	2.87	2.59
Deterioration of BoP	1.70	1.71	2.12	Excessive private sector credit	2.97	3.11	2.93
Sovereign rating downgrade	2.36	2.29	2.48	Concentration risk in private	2.93	2.95	2.83
Slowdown in corporate sector growth	2.64	2.47	2.23	Concentration risk in mutual fund	3.32	3.35	3.20
Slowdown in infrastructure development	2.86	2.88	2.87	Operational risk	2.75	2.78	2.79
Deterioration in household savings	2.66	2.60	2.37	Cyber security risk	2.43	2.23	2.35
Volatility in real estate prices	3.11	3.01	2.82	Disruption in financial market	2.80	2.92	2.68
Energy crisis	2.39	2.36	2.68	Terrorism	2.26	2.78	2.74
Political uncertainty	2.44	2.41	2.47	Geopolitical risk for Pakistan	2.28	2.63	2.41
Foreign exchange rate risk	1.79	1.80	1.71	Natural disasters/ Increasing threat of climate change	2.79	3.09	2.88
Equity price risk	2.62	2.44	2.37	Social unrest	2.93	3.07	2.92

1

Very High

3

Medium

5

High

C. Banking Sector Outlook for H2CY19

While macro stabilization measures have started to show favourable results, particularly on external front, the economic activity is expected to remain muted. Accordingly, the **private sector financing** demand is likely to remain subdued during H2CY19. Moreover, projected slowdown in global economic activity—particularly in the US and Euro area—is likely to influence exports and the demand for advances. In addition, owing to perceived weakening in re-payment capacity of firms and recent pick-up in the NPLs, banks may remain risk averse in their lending behaviour.

The government's commitment to cease its borrowing from SBP is expected to increase government reliance on banks for meeting its financing needs, which will further increase the banks' exposure to the public sector. Particularly, banks overall investments in government securities are expected to rise, though the maturity choice will largely hinge upon their views about the interest rate movements.

The expected increase in investments will enhance the funding requirements of banks. While deposits will remain the key source of funding, some uptake in borrowings could also happen. The rise in Minimum Savings Rate (MSR) is likely to induce depositors to opt for more savings and fixed deposits, while banks may face challenges in mobilizing low cost deposits.

The **earnings** are likely to remain decent in the half year ahead, due to higher interest earning and expected pick-up in banks' investment in government securities. However, increase in credit risk due to deterioration in asset quality, in the face of tighter macrofinancial conditions, may put earnings under some stress. The portfolio tilt towards zero risk weighted govt. securities may further augment already strong CAR as well as liquidity of the banking sector. Banks need to put in place capital enhancement plans in light of the regulatory CAR requirement increasing to 12.5 percent by December 31, 2019.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19
ASSETS								
Cash & Balances With Treasury Banks	909,429	910,418	1,184,521	1,241,640	1,303,914	1,541,206	1,574,551	2,117,875
Balances With Other Banks	198,395	186,575	168,394	158,090	156,332	170,800	147,829	205,223
Lending To Financial Institutions	360,772	313,933	551,695	563,382	604,990	651,974	909,754	724,736
Investments - Net	6,880,765	7,821,344	7,509,164	8,448,540	8,729,019	8,417,799	7,913,923	7,967,691
Advances - Net	4,815,827	5,179,829	5,498,813	6,118,822	6,512,485	7,310,299	7,955,195	8,104,232
Operating Fixed Assets	310,102	318,147	336,376	363,668	395,246	420,751	437,235	533,451
Deferred Tax Assets	65,644	70,347	64,681	65,735	72,354	78,939	81,082	85,057
Other Assets	602,301	573,167	517,412	540,609	567,205	605,294	662,485	979,360
TOTAL ASSETS	14,143,234	15,373,761	15,831,058	17,500,488	18,341,545	19,197,062	19,682,054	20,717,625
LIABILITIES								
Bills Payable	145,089	198,412	182,858	199,661	218,588	229,690	243,237	293,156
Borrowings From Financial Institution	1,766,145	2,304,736	1,942,458	2,814,776	3,125,432	3,161,918	3,001,186	2,619,901
Deposits And Other Accounts	10,389,260	11,024,200	11,797,867	12,573,296	13,011,778	13,755,769	14,254,210	15,227,411
Sub-ordinated Loans	51,366	54,683	59,330	53,565	64,703	80,360	111,713	117,098
Liabilities Against Assets Subject To Finance Lease	50	45	41	29	21	13	7	1,164
Deferred Tax Liabilities	47,622	68,081	61,109	55,915	44,684	39,568	34,557	27,518
Other Liabilities	420,935	416,624	434,598	444,131	495,549	540,671	631,529	943,424
TOTAL LIABILITIES	12,820,468	14,066,782	14,478,261	16,141,373	16,960,755	17,807,989	18,276,439	19,229,671
NET ASSETS	1,322,767	1,306,980	1,352,797	1,359,115	1,380,790	1,389,073	1,405,615	1,487,954
NET ASSETS REPRESENTED BY:								
Share Capital	619,862	579,168	579,882	596,124	516,013	525,771	541,040	547,120
Reserves	192,039	195,038	205,314	206,552	271,448	294,800	315,570	346,145
Unappropriated Profit	290,908	290,008	344,615	348,183	410,371	406,014	433,205	450,489
Share Holders' Equity	1,102,809	1,064,215	1,129,812	1,150,859	1,197,832	1,226,586	1,289,816	1,343,753
Surplus/Deficit On Revaluation Of Assets	219,958	242,765	222,985	208,256	182,958	162,487	115,799	144,201
TOTAL	1,322,767	1,306,980	1,352,797	1,359,115	1,380,790	1,389,073	1,405,615	1,487,954
PROFIT AND LOSS STATEMENT								
	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19
Mark-Up/ Return/Interest Earned	981,760	474,920	938,026	479,233	998,671	524,345	1,153,383	793,092
Mark-Up/ Return/Interest Expenses	485,575	227,297	453,232	234,345	499,819	262,838	608,309	462,507
Net Mark-Up / Interest Income	496,185	247,623	484,793	244,888	498,851	261,506	545,074	330,584
Provisions & Bad Debts Written Off Directly/(Reversals)	38,874	9,692	5,305	2,589	3,706	5,876	36,201	26,402
Net Mark-Up / Interest Income After Provision	457,311	237,930	479,489	242,299	495,146	255,630	508,873	304,183
Fees, Commission & Brokerage Income	82,640	45,660	90,266	49,556	102,898	54,542	112,852	61,749
Dividend Income	16,910	8,635	17,187	8,763	17,875	6,770	13,589	6,334
Income From Dealing In Foreign Currencies	22,824	8,094	14,015	7,905	14,308	11,584	25,981	18,583
Other Income	86,369	40,734	74,260	35,257	52,565	20,950	25,698	4,419
Total Non - Markup / Interest Income	208,743	103,122	195,728	101,481	187,646	93,847	178,121	91,084
	666,053	341,052	675,217	343,780	682,791	349,477	686,993	395,267
Administrative Expenses	330,006	176,585	356,183	189,108	387,878	209,165	430,375	237,084
Other Expenses	7,231	2,241	5,003	4,308	4,417	2,670	5,068	3,508
Total Non-Markup/Interest Expenses	337,237	178,826	361,186	193,416	392,295	211,835	435,444	240,592
Profit before Tax and Extra ordinary Items	328,817	162,226	314,031	150,364	290,496	137,643	251,550	154,675
Extra ordinary/unusual Items - Gain/(Loss)	0.51	0.33	0.27	0.15	23,717.35	9,170.00	9,016	15
PROFIT/ (LOSS) BEFORE TAXATION	328,816	162,226	314,030	150,364	266,779	128,473	242,534	154,660
Less: Taxation	129,811	68,482	124,117	60,506	108,987	51,886	93,194	71,940
PROFIT/ (LOSS) AFTER TAX	199,006	93,744	189,914	89,858	157,792	76,587	149,340	82,719

Annexure B

Distribution of Deposits

PKR billion

	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19
DEPOSITS	10,389	11,024	11,798	12,573	13,012	13,756	14,254	15,227
Customers	9,943	10,518	11,199	12,132	12,270	13,007	13,417	14,367
Fixed Deposits	2,425	2,463	2,670	2,691	2,841	2,756	2,974	3,074
Saving Deposits	3,863	4,047	4,342	4,579	4,699	4,923	5,043	5,386
Current accounts - Remunerative	331	389	409	475	480	561	561	597
Current accounts - Non-remunerative	3,254	3,518	3,685	4,239	4,095	4,593	4,691	5,157
Others	69	101	92	148	155	175	146	153
Financial Institutions	446	507	599	441	741	749	837	860
Remunerative Deposits	393	322	385	369	458	411	471	477
Non-remunerative Deposits	53	184	214	73	284	338	367	383
Break up of Deposits Currency Wise	10,389	11,024	11,798	12,573	13,012	13,756	14,254	15,227
Local Currency Deposits	9,042	9,832	10,548	11,166	11,591	12,306	12,600	13,267
Foreign Currency Deposits	1,347	1,192	1,249	1,407	1,421	1,450	1,655	1,960

Annexure C

C1: Segment-wise Advances(Grosss) and Non Performing Loans (NPLs)

	H1CY17			CY17			H1CY18			CY18			H1CY19		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	4,479,094	429,961	9.6	4,829,625	425,369	8.8	5,455,059	432,990	7.9	6,030,582	490,571	8.1	6,152,147	558,340	9.1
SMEs Sector	388,482	79,609	20.5	452,415	76,680	16.9	422,165	75,143	17.8	504,979	75,437	14.9	460,407	78,225	17.0
Agriculture Sector	296,989	53,205	17.9	316,169	38,386	12.1	318,152	61,763	19.4	324,291	54,687	16.9	334,857	71,606	21.4
Consumer sector	409,712	29,883	7.3	448,465	27,846	6.2	497,888	27,666	5.6	535,461	26,839	5.0	563,060	25,149	4.5
<i>i. Credit cards</i>	30,077	2,329	7.7	34,248	2,307	6.7	37,451	2,356	6.3	40,917	2,499	6.1	44,393	2,591	5.8
<i>ii. Auto loans</i>	150,313	2,635	1.8	169,476	2,673	1.6	196,556	2,646	1.3	210,388	2,760	1.3	221,282	2,926	1.3
<i>iii. Consumer durable</i>	479	72	15.0	652	66	10.1	723	65	8.9	866	65	7.5	994	64	6.4
<i>iv. Mortgage loans</i>	70,855	11,290	15.9	79,979	10,634	13.3	89,015	11,134	12.5	94,937	10,858	11.4	97,895	10,772	11.0
<i>v. Other personal loans</i>	157,988	13,557	8.6	164,109	12,166	7.4	174,143	11,465	6.6	188,353	10,657	5.7	198,496	8,797	4.4
Commodity financing	771,114	4,800	0.6	735,365	5,911	0.8	913,493	4,260	0.5	863,976	5,443	0.6	887,998	6,044	0.7
<i>Cotton</i>	13,243	728	5.5	24,808	1,050	4.2	19,371	992	5.1	41,065	994	2.4	28,807	994	3.5
<i>Rice</i>	17,610	2,844	16.1	21,010	2,676	12.7	18,446	2,478	13.4	31,886	2,614	8.2	19,302	2,565	13.3
<i>Sugar</i>	85,608	392	0.5	43,787	1,132	2.6	65,721	143	0.2	62,117	1,199	1.9	82,007	1,643	2.0
<i>Wheat</i>	398,320	45	0.0	580,290	136	0.0	762,011	136	0.0	664,304	115	0.0	686,690	153	0.0
<i>Others</i>	64,542	234	0.4	65,470	916	1.4	47,943	511	1.1	64,604	521	0.8	71,191	688	1.0
Staff Loans	110,281	1,462	1.3	115,449	1,779	1.5	121,796	1,829	1.5	126,997	2,037	1.6	139,397	1,927	1.4
Others	177,855	15,896	8.9	131,961	16,576	12.6	124,785	19,965	16.0	138,522	24,730	17.9	168,173	26,715	15.9
Total	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9	8,524,808	679,744	8.0	8,706,040	768,006	8.8

C2: Sector-wise Advances(Gross) and Non Performing Loans (NPLs)

	H1CY17			CY17			H1CY18			CY18			H1CY19		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	592,496	56,330	9.5	623,438	41,387	6.6	662,016	64,884	9.8	690,985	57,576	8.3	728,838	73,960	10.1
Automobile/Transportation	98,122	12,518	12.8	108,707	12,027	11.1	120,921	13,895	11.5	129,666	15,820	12.2	141,559	16,728	11.8
Cement	87,601	6,620	7.6	109,561	6,472	5.9	141,223	5,296	3.7	166,962	5,059	3.0	172,784	3,725	2.2
Chemical & Pharmaceuticals	273,440	13,173	4.8	236,955	12,864	5.4	263,329	12,505	4.7	291,291	13,029	4.5	302,758	16,029	5.3
Electronics	81,809	12,755	15.6	97,804	12,503	12.8	103,249	12,065	11.7	117,303	16,260	13.9	117,175	19,598	16.7
Financial	208,486	9,521.3	4.6	172,695	8,782.4	5.1	185,008	8,585	4.6	228,482	9,928	4.3	229,576	11,110	4.8
Individuals	589,900	56,069	9.5	618,877	54,734	8.8	706,926	55,458	7.8	739,483	62,553	8.5	763,638	61,433	8.0
Insurance	4,554	1	0.0	5,934	1	0.0	3,402	7	0.2	3,914	7	0.2	3,637	7	0.2
Others	2,595,288	203,801	7.9	2,748,079	206,879	7.5	3,099,352	207,451	6.7	3,297,259	232,109	7.0	3,406,462	248,759	7.3
Production/Transmission of Energy	971,125	36,788.9	3.8	1,043,522	33,589.0	3.2	1,245,848	36,084	2.9	1,434,622	38,786	2.7	1,450,842	85,428	5.9
Shoes & Leather garments	26,030	3,596	13.8	28,364	5,307	18.7	30,755	5,710	18.6	33,716	5,674	16.8	37,096	5,941	16.0
Sugar	258,219	15,743.5	6.1	245,590	14,489.9	5.9	307,500	15,995	5.2	234,844	40,337	17.2	278,266	43,520	15.6
Textile	846,457	187,899	22.2	989,922	183,511	18.5	983,810	185,681	18.9	1,156,283	182,606	15.8	1,073,409	181,768	16.9
Total	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9	8,524,808	679,744	8.0	8,706,040	768,006	8.8

C-3: Classification wise Non Performing Loans (NPLs) and Provisions (specific)

	H1CY17		CY17		H1CY18		CY18		H1CY19	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	35,534	-	19,780	-	39,212	-	32,380	-	40,474	-
Sub Standard	35,238	6,890	32,829	6,446	39,459	8,322	53,898	8,331	78,332	8,087
Doubtful	37,526	15,604	35,108	14,912	29,108	13,849	52,417	17,742	61,365	20,260
Loss	506,518	463,067	504,831	463,536	515,835	484,965	541,049	511,601	587,836	540,788
Total	614,816	485,560	592,547	484,894	623,615	507,136	679,744	537,675	768,006	569,136

Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Annexure D

Financial Soundness Indicators of the Banking Sector

percent

Indicators	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19
CAPITAL ADEQUACY										
Risk Weighted CAR [^]	17.1	17.2	17.3	16.1	16.2	15.6	15.8	15.9	16.2	16.1
Tier 1 Capital to RWA	14.3	14.1	14.4	13.0	13.0	12.7	12.9	13.0	13.2	13.3
ASSET QUALITY										
NPLs to Total Loans	12.3	12.4	11.4	11.1	10.1	9.3	8.4	7.9	8.0	8.8
Provision to NPLs	79.8	80.8	84.9	82.4	85.0	83.7	87.2	87.1	83.8	78.4
Net NPLs to Net Loans	2.7	2.7	1.9	2.2	1.6	1.6	1.2	1.1	1.4	2.1
Net NPLs to Capital ^{^^}	10.1	10.9	7.7	9.7	7.3	8.0	5.8	5.9	7.8	11.5
EARNINGS										
Return on Assets (Before Tax)	2.2	2.7	2.5	2.2	2.1	1.8	1.6	1.4	1.3	1.6
Return on Assets (After Tax)	1.5	1.6	1.5	1.3	1.3	1.1	0.9	0.8	0.8	0.8
ROE (Avg. Equity & Surplus) (Before Tax)	24.3	27.5	25.8	24.9	23.8	21.9	19.5	18.5	17.4	21.3
ROE (Avg. Equity & Surplus) (After Tax)	16.1	15.9	15.6	14.4	14.4	13.1	11.5	11.0	10.7	11.4
NII/Gross Income	71.3	67.5	70.4	70.6	71.2	70.7	72.7	73.6	75.4	78.4
Cost / Income Ratio	53.3	46.1	47.8	51.0	53.1	55.8	57.1	59.6	60.2	57.1
LIQUIDITY										
Liquid Assets/Total Assets	49.2	52.3	53.8	55.2	53.7	53.8	54.0	51.1	48.7	48.0
Liquid Assets/Total Deposits	64.5	69.5	73.3	77.0	72.1	74.9	76.1	71.3	67.2	65.3
Advances/Deposits	48.2	45.7	46.4	47.0	46.6	48.7	50.1	53.1	55.8	53.2

[^] Data for Dec-13 and onwards is based on Basel III, with the exception of IDBL, PPCBL, and SME Bank, which is based on Basel I.

^{^^} Effective from June 30, 2015, Regulatory Capital, as defined under Basel requirements, has been used to calculate Net NPLs to Capital Ratio. Prior to Jun-15, Balance Sheet Capital was used for calculation of this ratio.

Annexure E

Group-wise Composition of Banks

CY17	H1CY18	CY18	H1CY19
A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)
First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.
National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.
The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
B. Local Private Banks (20)	B. Local Private Banks (20)	B. Local Private Banks (20)	B. Local Private Banks (20)
AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.
Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.
Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.
Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.
Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.
Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.
Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.
Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.
JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.
MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.
MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.
Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.
SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.
Silk Bank Ltd	Silk Bank Ltd	Silk Bank Ltd	Silk Bank Ltd
Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan)	Standard Chartered Bank (Pakistan)	Standard Chartered Bank (Pakistan)
Summit Bank Ltd	Summit Bank Ltd	Summit Bank Ltd	Summit Bank Ltd
United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.
C. Foreign Banks (5)	C. Foreign Banks (5)	C. Foreign Banks (5)	C. Foreign Banks (5)
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.
Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Industrial and Commercial Bank of China	Industrial and Commercial Bank of	Industrial and Commercial Bank of	Industrial and Commercial Bank of
Bank of China Limited [^]	Bank of China Limited [^]	Bank of China Limited [^]	Bank of China Limited [^]
D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)
Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.
Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank	Punjab Provincial Co-operative Bank	Punjab Provincial Co-operative Bank
SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.
All Commercial Banks (30)	All Commercial Banks (30)	All Commercial Banks (30)	All Commercial Banks (30)
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (34)	All Banks (34)	All Banks (34)	All Banks (34)
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

[^]SBP declared "Bank of China Limited" as a scheduled Bank with effect from September 18, 2017.